

PUBLIC EMPLOYEES' RETIREMENT FUND

INDIANA



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RESTATEMENT OF INVESTMENT POLICY

Originally Adopted September 12, 1997
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DEFINITIONS

Definitions of the following terms will be found on the pages of the Policy shown below.

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INTRODUCTION

Description of PERF

The Indiana Public Employees' Retirement Fund ("PERF") was established in 1945, to provide retirement, disability, death, and termination benefits to present and former members and their beneficiaries who meet the statutory requirements for such benefits. Members include employees of the State and employees of other governmental units who have adopted resolutions joining PERF (including cities, towns, counties, and other governmental units). Pursuant to Indiana law and the Internal Revenue Code, PERF must be operated for the exclusive benefit of, and solely in the interest of, members and their beneficiaries. PERF is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, PERF is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. PERF is also governed by Indiana statutes and administrative rules. Among the governing Indiana statutes is the requirement that PERF be funded and maintained on an actuarially sound basis. See IC 5-10.2 and IC 5-10.3.

Description of Other Funds Subject to Board Control

The Board of Trustees of PERF (the "Board") is also charged with the administration and trusteeship of the following plans:

1. The 1977 Police Officers' and Firefighters' Pension and Disability Fund. See IC 36-8-8. This Fund provides retirement, death and disability benefits (as established by law) for municipal firefighters and police officers hired on and after May 1, 1977, and their beneficiaries. It is funded through member contributions and an actuarially sound state-wide employer contribution rate.
2. The Judges' Retirement System, which includes the Judges' 1977 Benefit System and the Judges' 1985 Benefit System. See IC 33-13-8, 33-13-9.1, and 33-13-10.1. This System provides retirement, death and disability benefits for all eligible judges. It is not actuarially funded and operates on a pay-as-you-go basis. Judges contribute 6% of their salary to the System.
3. The Legislators' Retirement System, which includes the Legislators' Defined Benefit Plan and the Legislators' Defined Contribution Plan. See IC 2-3.5, IC 2-3.5-4, and IC 2-3.5-5. The Legislators' Defined Benefit Plan provides a unit benefit for years of service in the General Assembly prior to May 1989. That plan covers a "closed" group of members and a "closed" liability, in that no individuals elected to the General Assembly after April 1989 earn any benefit under this plan, and no years of service after April 1989 count for benefit accrual for anyone who is participating in that plan. The Legislators' Defined Contribution plan is a money purchase plan, with a fixed member contribution of 5% and a fixed state contribution of 20% each year. Those contributions go into a separate account for

each member, which then provides an account balance payable under various circumstances (termination, death, disability or retirement).

4. The Excise Police and Conservation Enforcement Officers' Retirement Plan. See IC 5-10-5.5. The plan provides retirement, death and disability benefits for all eligible excise police and conservation officers. It is funded on an actuarially sound basis (with a 40 year amortization of the unfunded accrued liabilities). The members pay 3% of the first \$8,500 of their salary, and the state funds the balance.
5. The Prosecuting Attorneys Retirement Fund. See IC 33-14-9. This fund provides retirement, death and disability benefits for all prosecuting attorneys, chief deputy prosecuting attorneys, state paid deputy prosecuting attorneys and certain positions in the prosecuting attorneys council. It is funded on an actuarially sound basis. The members pay 6% of their salary and the state pays the remaining amounts, as actuarially determined.

In addition, the Board is charged with administering the Pension Relief Fund, a separate fund created to provide benefits for eligible police officers and firefighters and their beneficiaries under the 1925 Police Pension Fund (see IC 36-8-6), the 1937 Firefighters Pension Fund (see IC 36-8-7), and the 1953 Police Pension Fund (see IC 36-8-7.5). These funds provide retirement, death and disability benefits for eligible individuals hired before May 1, 1977, as established by state law and local ordinances and decisions. The Pension Relief Fund is funded from proceeds from the state lottery, certain alcohol and tobacco taxes, and additional appropriations. There is a significant funding deficiency remaining at the city and town level under the three funds (the 1925 Police Pension Fund, the 1937 Firefighters Pension Fund and the 1953 Police Pension Fund) even though the covered population is "closed" as of May 1, 1977. The Pension Relief Fund relieves some of that deficiency by releasing dollars to cities and towns to cover benefits, through two release formulas.

PERF Annuity Savings Account

The Annuity Savings Accounts are bookkeeping accounts established for each member of PERF. The member's account is credited with the member's 3% contribution (whether paid by the member or "picked-up" by the employer). The member has limited investment direction to several alternative funds or may leave their account in the "guaranteed fund." The guaranteed fund affords the member a "passbook savings"-like or "risk free" protection on all contributions credited to that member's account, plus all previously credited interest (at an interest rate determined by the Board each year). Legislation has been enacted that will substantially enhance the members' investment direction opportunities. These accounts produce an additional separate benefit from the fixed-formula employer-funded pension benefit.

Description of Primary Statutory Investment Provisions

The Indiana General Assembly recently enacted the prudent investor standard to apply to the Board and govern all its investments. See PL 37-1996. In doing so, the General Assembly noted the following:

Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and

Whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investments made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient investment income; and

Whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of each fund must diversify the investments of their fund so as to minimize the risk of large losses.

Thus, the primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards. See IC 5-10.3-5-3.

Other Restrictions on Investments

Other pertinent investment requirements in the Indiana statute include the following:

- A. Fund investments must be held for the Fund by banks or trust companies under a custodial agreement or agreements. IC 5-10.3-5-4(a). All Custodians must be located in Indiana. IC 5-10.3-5-5.
- B. The Treasurer of the State must receive all Fund deposits (e.g., income, interest, receipts, etc.). IC 5-10.3-5-4(a).
- C. [Deleted by House Enrolled Act 1093 (1999).]

- D. The Board may not engage in any prohibited transaction, as described in Section 503(b) of the Internal Revenue Code. IC 5-10.2-2-1.5(9).

A legal opinion dated May 19, 1997 from Fund counsel analyzes the Board's authority to make investments under the Indiana Constitution and concludes that there are no constraints under Section 12 of Article XI of the Indiana Constitution on the Board's authority to invest.

Background of Investment Policy

The Board has maintained an investment policy for many years. That policy has been amended and restated from time to time as the Board deemed appropriate. The Board adopted a set of guiding principles on November 15, 1996, as well as Investment Policy Goals and Guidelines. The Board determined it was appropriate to completely restate its policy to incorporate appropriate principles, and to reflect the extensive work done by the Board following passage of Senate Enrolled Act 69 (the prudent investor standard) and Question 2 (the equity referendum on the November 1996 Indiana ballot to allow equity investments). That restatement was dated September 12, 1997, and the Board has subsequently amended that restatement. The Board wishes to restate its policy to reflect those amendments, changes in applicable law, as well as other amendments it believes appropriate.

The Board intends this Policy to augment the governing laws, and supersede all prior statements of policy, principles and guidelines. This Policy is binding on all persons with authority over Fund assets, including Investment Managers, Custodians, Consultants, Staff, and the Board, as well as any other person who could have a relationship with the Fund.

Scope of Investment Policy

This Policy covers all assets under the Board's control except to the extent the following are specifically addressed in an Addendum:

- The Annuity Savings Accounts in PERF
- The Pension Relief Fund

References in the balance of this Policy to "Fund" will include all assets under the Board of Trustees' control except to the extent appropriate for the assets listed in the preceding paragraph.

SECTION 1. PURPOSE OF POLICY

The purpose of the Investment Policy is to:

Set forth the investment policies which the Board judges to be appropriate and prudent, in consideration of the needs of the Fund, legal requirements applicable to the Fund, and to direct investment of the Fund's assets.

Establish criteria against which the Investment Manager(s) are to be measured.

Communicate the investment policies, objectives, guidelines, and performance criteria of the Board to the Staff, Investment Managers, Consultants, and all other interested parties.

Serve as a review document to guide the ongoing oversight of the investment of the Fund.

Demonstrate that the Board is fulfilling its fiduciary responsibilities in the management of the investments of the Fund solely in the interests of members and beneficiaries of the Fund.

The Board does intend this Policy to be a dynamic document, and, as such, expects to review it periodically. The Board anticipates that changes will be made from time to time to reflect experience, investment product changes, benefit and structural changes, performance and economic conditions.

SECTION 2. STATEMENT OF GUIDING PRINCIPLES

The Board has adopted a set of guiding principles for oversight and management of Fund investments. They are as follows:

Investment of Fund assets will be delegated to Investment Managers pursuant to Section 14.

The Board will employ Investment Managers with understandable, clearly defined investment strategies pursuant to Section 8.

The Board will not time the markets in making investment related decisions, consistent with the fact that the Fund is a long term investor.

The Board will manage the investment of the assets in a cost effective manner.

The Board prefers to employ Investment Managers that maintain fully invested positions rather than using cash equivalent or short term investments as a strategy alternative.

The Board will maintain a prudent investor profile, consistent with its fiduciary responsibility to invest the assets solely in the interests of its beneficiaries.

Initial equity investments will be accomplished by a measured movement toward allocation targets over a three-year period.

The priority of all investments will be consistent with optimizing diversification benefits.

The Boards intends to incorporate risk management concepts focused on moderating or controlling, to the extent reasonable and practical, risks normally associated with investment.

The Board realizes that the plans under its trusteeship may have different funding positions and needs, different population demographics, and different time horizons, which may create different investment needs or requirements.

SECTION 3. RESPONSIBLE PARTIES AND THEIR DUTIES

Board of Trustees

The Board is the body of persons whose role is to oversee all aspects of the operation of the Fund. The Board is appointed by the Governor for a four year term, pursuant to IC 5-10.3-3-1. At least one Board member must be a Fund member with at least ten years of service, and not more than three Board members may be members of the same political party. The Board members are fiduciaries of the Fund. Their responsibilities with respect to the assets of the Fund include completing each of the duties below as a prudent investor:

Set the policies, objectives, and guidelines for the investment of the assets of the Fund.

Study issues affecting the investment of the Fund so as to make educated and prudent decisions concerning this Policy.

Select qualified professionals to assist in the implementation of this Policy.

Evaluate the Fund's performance and compliance with this Policy.

Review compliance with applicable state and federal laws.

Evaluate performance of investment professionals and staff.

Staff of Fund

The Staff are those persons employed by the Fund. The Board has the authority to set compensation of the Staff. Staff duties are to administer the Fund in line with the policies and decisions of the Board and the provisions of governmental law and to provide input for the Board so that issues can be studied fully prior to any Board decision. In addition, Staff is responsible for interacting with the legislature, serving the needs of Fund members, and managing the Fund's relationships with outside professionals and other constituencies.

Executive Director

The Executive Director, a member of the Staff, is appointed by the Board, subject to the approval of the Governor. The Executive Director acts on behalf of the Board, and is responsible for performing duties as assigned by the Board, as well as for receipt of payments and deposits to the Fund, and payments from the Fund.

Investment Manager

An Investment Manager is a person(s), firm, corporation, bank or insurance company who is retained to manage a portion of the assets of the Fund under specified guidelines. Such Investment Managers will be registered as investment advisors under the Investment Advisors Act of 1940 and Securities Exchange Commission Acts, unless exempted from registration by the SEC (i.e., banks and insurance companies and affiliates).

Custodian

A Custodian for the Fund is a bank or trust company located in Indiana which is retained by the Board. A Custodian may be authorized to (1) hold securities and other investments in the name of the Fund, in the name of a nominee of the Custodian, or in bearer form; (2) collect and receive income, interest, proceeds of sale, maturities, investments, deposit all these receipts in a custodian account or checking account as instructed by the Board, and reinvest these receipts as directed by the Board; (3) maintain accounting records and prepare reports which are required by the Board and the State Board of Accounts; (4) perform other services for the Board as are customary and appropriate for custodians; and (5) if retained, to conduct any analysis required by the Board.

Consultants

Consultants are persons or firms who are retained by the Board for the Fund and responsible for providing investment advice to the Fund, based upon their expertise and their analysis of the issues under consideration.

SECTION 4. CODE OF ETHICS

Fiduciary Responsibility

The members of the Board recognize that they serve as fiduciaries of the Fund. One of their primary responsibilities is the prudent investment of Fund assets. Thus, the Board shall exercise the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. The Board must also diversify the investments of the Fund in accordance with prudent investment standards. See IC 5-10.3-5-3. The Board has a duty of undivided loyalty, and must be impartial in the exercise of such duty, to the beneficiaries of the Fund, as all Fund assets must be used for the exclusive benefit of the Fund's covered members and their beneficiaries. No part of the corpus or income may be used for or diverted to any purpose other than for the "exclusive benefit" of the members or their beneficiaries. See IC 5-10.2-2-1.5. The Board may not engage in any transactions prohibited by Section 503(b) of the Internal Revenue Code. See IC 5-10.2-2-1.5(9). Board members or anyone acting on their behalf must comply with these provisions.

Compliance with Code of Ethics

Board members recognize that they are governed by a strict code of ethics. Because they believe that public confidence in the Board's integrity is essential not only for members of the Fund, but also for the public and taxpayers of the State of Indiana as well, they wish to ensure that their actions conform not only with the letter of the law but also with the spirit of the law. As such, the Board has adopted an Ethics Policy.

As to any other person (including, but not limited to, Consultants, Custodians, Investment Managers), the Indiana Code of Ethics provides:

- It shall be unlawful for any person, other than employees performing their duties in making payments to employees as provided by law, to pay, or offer to pay, any employee any compensation for the performance of his official duties. See IC 4-2-6-5. Compensation includes any money, thing of value, or financial benefit. See IC 4-2-6-5.

Conflict of Interests Rules

Board members recognize that all Fund transactions and selections are to be based on the integrity and competence of the parties with whom the Fund is dealing and upon financial merit and benefit to Fund members and their beneficiaries, and not on personal relationships. Board members shall never act where there may be a conflict of interest or appearance of conflict of interest. They realize they occupy special positions of fiduciary trust and confidence such that each member must studiously and conscientiously avoid any reasonable appearance of conflict. A conflict of interest is understood to be presented in a situation wherein a relationship exists which could reasonably be expected to diminish independence or judgement in performance of official responsibilities as a Board member. Accordingly, a Board member shall not engage in conduct that constitutes or involves a conflict of interest. It is the Board member's duty to determine if a potential conflict of interest exists, to avoid the conflict, if possible, or, where applicable, to disclose a conflict. If a Board member determines that a conflict of interest or potential conflict of interest exists, that individual shall have an obligation to recuse themselves from participating in the matter. The Board member shall disclose the reason for any such recusal.

- **Voting**

Board members should not participate in a discussion or vote on a matter in which they have a direct or indirect significant financial interest. However, this prohibition does not arise in connection with a matter which would have an insignificant economic effect on any interest of the Board member, or which affects the member only as a member of the general public or of a subgroup of the general public, such as members of the Fund as a whole.

- **Disclosure**

1. Any person who serves on the Board shall fully disclose any substantial interest in any entity in which an investment has been made with monies of the Fund.
2. Board members shall disclose any significant business relationship they have with any vendors or prospective vendors serving or considered for service to the Fund.

Specific Board Rules of Conduct

In furtherance of the general principles stated above, the Board has adopted the following specific rules.

- **Contact with Investment Managers**

It is the Board's policy that all contact with Investment Managers or others seeking a business relationship with the Fund should be directed to the Executive Director and Staff, not to individual Board members. For example, during a manager, consultant or other professional search process, it is the Board's policy that no contact with prospective bidders and individual Board members is appropriate. However, the Board recognizes three exceptions to this general rule. First, this rule is not applicable to circumstances arising in the ordinary course of business of an individual that is unrelated to the individual's status as a Board member. Second, this rule is not applicable to contacts relating to Board business with Investment Managers and Consultants with whom the Board has an existing fiduciary relationship. For example, Board members are encouraged to contact an existing Investment Manager with any questions or concerns they might have with respect to a specific investment directed by that Investment Manager. Third, any other casual incidental contact with an existing or prospective Investment Manager or Consultant that a Board member has, not directed to specific Fund matters, should be disclosed to the Executive Director.

- **Gifts**

A Board member may not accept for personal use any gifts, favors, services, entertainment, food or drink valued at a total of more than \$25.00 in a calendar year from a person or business that is seeking or actually has a business relationship with the Fund. However, it is understood that this prohibition is not applicable to circumstances arising in the ordinary course of business of an individual that is unrelated to his or her status as a Board member.

- **Speaking Engagements**

A Board member may not accept any expenses, reimbursement, or honorarium for any speeches or presentations made in his or her capacity as a Board member. This rule does not apply to circumstances where the individual is speaking or presenting in a capacity unrelated to Board membership or as to which Board membership is simply recognized as a part of such member's professional experience.

Conferences and Educational Activities

Board members are encouraged to attend appropriate educational conferences and meetings to assist them in performing their duties. It is the Board's policy to reimburse Board members for expenses related to such activities. The Executive Director will serve to coordinate attendance and administer reimbursement, subject to any required procedure.

Responsibilities of Investment Managers and Consultants

In order to accomplish these objectives, each Investment Manager and Consultant retained by the Fund shall be notified in writing of the Board's Code of Ethics and the related Conflict of Interest laws of the State of Indiana, and of the Board's adoption of this Code. All Investment Managers shall strictly conform to the Board's Code of Ethics. Any suggestion or offer to deviate from these provisions made by a Board member or Staff member shall be reported by the Investment Manager or Consultant, in writing, to all members of the Board.

The Board recognizes that Investment Managers and Consultants have every right as citizens to participate in the political process both individually or corporately. However, the Board believes that it is inappropriate and improper for members of the Board to solicit contributions or support of specific candidates from any Investment Managers, Consultants or Staff. Any such incidents should be reported, in writing, by the Investment Manager or Consultant to all members of the Board.

All Investment Managers, Consultants and other persons retained in any capacity which have fiduciary responsibilities are expected to abide by the provisions of the Board's Code of Ethics.

SECTION 5. GENERAL OBJECTIVES

The investment activities are to be designed and executed in a manner that serves the best interests of the members and beneficiaries of the Fund.

The investment activities are designed to provide a return on Fund assets that, when coupled with the periodic contributions of the membership and employers, will meet or exceed the benefit funding requirements of the Fund. Of primary consideration is the maintenance of funding which is adequate to provide for the payment of the plans' actuarially determined liabilities over time, at a reasonable cost to the members and the taxpayers of the State.

The Board has the authority and intends to establish allocations to various asset classes and subcategories as described in Section 6, subject to general and specific guidelines established in Section 8. Evaluation of Investment Manager performance and total Fund performance will be done pursuant to Sections 7 and 13.

SECTION 6. ASSET ALLOCATION

The Board recognizes that the allocation of assets, particularly the broadly-defined mix between stocks and bonds, is the most important determinant of investment rates of returns over long periods of time.

Background Information

To guide their selection of the best asset mix, the Board considered the linkage of liability projections with asset projections over future time periods. Key factors were the “Employers’ Contributions as a Percentage of Pay” and the “Funded Ratios” which would be necessary to provide the promised benefits to Fund beneficiaries.

Selected Allocations

The following asset classes, target norms, and allowable ranges have been established.

<u>Asset Classes</u>	<u>Target Norm</u>	<u>Allowable Range</u>
Domestic Equities	53%	50-60%
International Equities	10%	5-15%
Fixed Income	32%	30-40%
Alternative Assets	5%	0-5%

Within each asset class, the Board in its discretion may establish subcategories, and the Board also may establish the mix between active Investment Managers and passive index Investment Managers.

Rebalancing

The Board has determined that tactical asset allocation in anticipation of expected future market fluctuations is not in the best interest of the Fund.

However, differential market returns may from time to time cause some allocations to move to the upper or lower ends of their allowable ranges. Consequently, the Board will monitor no less than quarterly the actual positions, and will engage in strategic asset reallocation from one class to another whenever they deem it appropriate to do so.

Review

The asset allocation will be reviewed periodically, but no less frequently than every three years. Asset liability modeling studies will be conducted as the Board determines necessary.

SECTION 7. INVESTMENT PERFORMANCE STANDARDS

Introduction

The Board recognizes the need to evaluate the investment performance of the Investment Managers who have been delegated the duty to invest the assets of the Fund, and further recognizes that Investment Managers are under a strict fiduciary duty to the Fund. Further, the Board recognizes the need to evaluate the performance of the total Fund. Therefore, the Board wishes to establish clear standards for execution of this fiduciary duty. The Board intends to evaluate the performance of each Investment Manager pursuant to Section 13.

Performance Evaluation Factors for Total Fund

The key factors to be used in the analysis of the investment performance of the total Fund include:

- The funded status of the Fund.
- Investment rate of return and volatility of the Fund, compared with a weighted average of market indexes which best describe the Fund's allocation.
- Investment rate of return of the Fund, compared with other large private and public pension funds with special emphasis on other large public funds.

Performance Evaluation Factors for Investment Managers

The key comparative factors to be used in the analysis of the performance of an Investment Manager include:

- Investment rates of return of the Investment Manager compared to an appropriate market index benchmark.
- Investment rates of return of the Investment Manager compared to an appropriate universe or style peer group.
- The volatility of the investment rates of return of the Investment Manager compared to the volatility of an appropriate market index benchmark.

Rates of return for an Investment Manager will be calculated based on the total of the Investment Manager's allocation of Fund assets.

Volatility will be measured by the standard deviation of the historical series of rates of return over a period of not less than three years.

Compliance with the Fund's guidelines applicable to the particular asset class under management will be considered in the evaluation of the Investment Manager's performance within its specific style.

Performance Evaluation Standards

Rates of return will be evaluated on both a gross and net of fee basis. The calculation of the investment rates of return will be consistent with the provisions of Section 13. In order to provide more definition and consistency, one year, three year, five year, and rolling three and five year periods will be used. Rolling periods shall be defined as a three (or five) year period beginning with the earliest reasonable date and including subsequent three (or five) year periods each beginning one year later until the ending date is the end of the current period. If needed to further evaluate investment performance, other time periods may be employed.

The following standards will be used as a guideline for the evaluation of the investment performance of the Investment Managers:

- Gross of fee rates of return ranking at or above the median of an appropriate universe or style peer group of investment managers, on one year, three year, and rolling three year periods.
- Net of fee rates of return exceeding an appropriate market index benchmark, on three year, rolling three year, five year and rolling five year periods.
- Risk — adjusted rates of return exceeding an appropriate market index benchmark, on a three year, rolling three year, five year and rolling five year periods.
- Volatility consistent with the assigned asset class, and relative to the appropriate market index benchmark, on three year, rolling three year, five year and rolling five year periods.

SECTION 8. INVESTMENT GUIDELINES

General Guidelines for Investment Managers

Each Investment Manager retained to manage a portion of the assets (the Investment Manager's "Portfolio") of the Fund shall be aware of and operate within this Investment Policy and governing Indiana statutes. Subject to the guidelines in this Section and the policies documented in this Statement, any Investment Manager retained by the Fund is to have full discretionary investment authority over the assets said Investment Manager is responsible for managing.

As fiduciaries of the Fund, all Investment Managers (regardless of type of investment) will discharge their duties solely in the interests of the Fund's members and beneficiaries and with the care, skill, prudence, and diligence that an expert would use on his/her own behalf. In addition, the Investment Managers shall observe the following rules:

- **Specific Limitation on Holdings.** The purchase of securities of any one issuer (with the exception of the US Governmental and its agencies) shall be limited to an initial cost of 5% of the market value of an Investment Manager's Portfolio. Through capital appreciation, no such holding should exceed 7.5% of the market value of the total holdings of such Investment Manager's Portfolio, unless the Board approves an exception.

For managers contracted to manage a concentrated portfolio, the purchase of securities of any one issuer (with the exception of the US Governmental and its agencies) shall be limited to an initial cost of 7.5% of the market value of an Investment Manager's Portfolio. Through capital appreciation, no such holding should exceed 15% of the market value of the total holdings of such Investment Manager's Portfolio, unless the Board approves an exception.

- **Securities Trading.** Each Investment Manager is to immediately send copies of each transaction record to the Fund, its Custodian(s), and any designated agent of its Custodian(s). Each Investment Manager is further required to reconcile the account(s) under its management on a timely basis each month with the Custodian(s). Each Investment Manager is responsible for complying fully with the Fund's policies for securities trading and selecting brokerage firms.
- **Acknowledgments of Legal Compliance.** Each Investment Manager retained by the Fund must be a person, firm, or corporation registered as an investment adviser under the Investment Advisors Act of 1940; a bank as defined in such Act; or an insurance company qualified to do business in more than one state, and must acknowledge its fiduciary responsibility in writing. SEC registered firms will be expected to provide a copy of the SEC ADV Form Section II on an annual basis.

- **Acknowledgments of Receipt.** All Investment Managers shall acknowledge in writing their receipt of this Policy and their agreement to abide by its terms. All Investment Managers shall have an affirmative duty to bring suggestions for modification or change of the Policy to the Board.
- **Fiduciary Liability Insurance.** Each Investment Manager will obtain fiduciary insurance coverage, in which the Fund is a named insured party, with a minimum of \$5 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually provide written evidence of such coverage. The Executive Director may approve alternative fiduciary liability insurance arrangements, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.
- **Errors and Omission Coverage.** Each Investment Manager will obtain errors and omission coverage, with minimum of \$5 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually be required to provide written evidence of such coverage. The Executive Director may approve alternative errors and omissions coverage, if in the judgement of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.
- **Fidelity Bond.** Each Investment Manager will obtain a fidelity bond, with a minimum of \$3 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually be required to provide written evidence of such coverage. The Executive Director may approve alternatives to a fidelity bond, if in the judgement of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.
- **Proxy Voting.** Each Investment Manager will abide by the Fund's Proxy Voting Policy as stated in Section 12 of this Statement. Each Investment Manager will provide an annual report of proxy voting activity to the Fund consistent with the requirements of Section 12.
- **Conflicts of Interest.** An Investment Manager shall be subject to the applicable provisions of Section 4 of this Statement. An Investment Manager through its actions on behalf of the Fund shall not invest any part of the Fund with itself or with any person or entity with which or in which it has any economic interest, unless such Investment Manager receives prior written approval from the Board. This limitation shall be construed so as to avoid any possibility of self-dealing or conflict of interest. In addition, no Investment Manager, through its actions on behalf of the Fund, shall act or receive compensation as a broker, dealer, underwriter, or principal whether directly or through a related or an affiliated

entity, unless such Investment Manager receives prior written approval from the Board.

- **Prohibited Securities and Transactions.** Except as otherwise authorized by the Board, the following transactions shall be prohibited:
 - Short sales of any kind
 - Purchases of letter or restricted stock
 - Buying or selling on the margin
 - Purchases of futures and options, except where specifically noted in Specific Guidelines
 - Purchases of derivative securities which have any of the following characteristics: leverage, indexed principal payment, or links to indexes representing investments, unless specifically approved by the Board or as delegated to the Executive Director.
 - Purchases of Interest Only or Principal Only collateralized mortgage obligations
 - Purchases of Guaranteed Investment Contract (GIC's) or Bank Investment Contracts (BIC's)
 - Any transactions giving rise to unrelated business taxable income (excluding current holdings)
 - Any transaction that would be a "prohibited transaction" under the Internal Revenue Code Section 503
 - Purchases of precious metals
 - Purchases of commodities
 - Purchases of inverse floaters
- **Correction of Violations.** In the event a violation of the guidelines occurs, unless otherwise approved by the Executive Director in writing, based upon a determination of the best interests of the Fund, the violation:
 - Shall be corrected immediately by sale as soon as practicable following detection and notification, unless the Executive Director has agreed in writing to a correction which does not result in immediate disposition or sale
 - Shall result in the reimbursement of the Fund by the Investment Manager for any losses which may have been incurred due to the violation
 - Shall result in the Fund retaining any gains which are realized from the violation
 - May be grounds for termination by the Board

Reporting Procedures for Investment Managers

The Investment Manager shall:

- Prepare a quarterly report to be delivered to the Board and staff which includes those items requested by the Fund, in the format requested by the Fund. These reports should cover any changes in the firm's structure, professional team or product offerings; a review of recent and anticipated investment activities; an analysis of the major changes which have occurred in the investment markets and in the Portfolio in particular since last report; a summary of the key characteristics of the Portfolio; and other matters as requested by the Fund from time to time. Periodically, the Staff will provide the Investment Manager with a detailed description and format for these reports.
- Make a presentation to the Board, or its designated committee, at least annually and when requested by the Board, describing the professionals, the investment process employed for the Fund's Portfolio under the Investment Manager's responsibility, recent performance of the Portfolio, current investment strategy and outlook, and any other related issues as requested by the Board or its designated committee.
- Meet regularly with the Staff to discuss the management of the Portfolio, new developments and any other related matters.
- Immediately report all instances of economically material events which would affect investment performance of assets held (e.g., default, missed interest payments, violation of bond covenants, or significant business restructuring) to the Board and provide recommendations regarding options for addressing such issues, including withdrawing from the investment or other appropriate actions.
- Advise the Board immediately and in writing if any of the following events occur within the Investment Manager organizations:
 - a loss of one or more key people
 - a significant change in investment philosophy
 - a new portfolio manager(s) or account manager(s) on the Fund's account
 - a change in ownership or control (whether through acquisition, disposition, spin-off, merger, consolidation, or otherwise) or in business focus of the Investment Manager
 - loss of a significant client relationship(s)
 - any other event which could be judged to or deemed to adversely impact to a significant degree the management, professionalism, integrity or financial position of the Investment Manager

General Guidelines for the Investment of the Specific Portfolios

Each Investment Manager will be retained to implement a specific investment strategy for the Fund. This strategy and its underlying philosophy will be described in the Investment Manager's contract and the Portfolio will be managed according to this strategy until such time as the Board and Investment Manager agree in writing to any change.

Generally, the structure of the Fund is expected to include the following asset classes and management strategies:

- domestic equity
 - core index management
 - core enhanced index management
 - core active management
 - style-specific active management
- international equity
 - core index management
 - core enhanced index management
 - core active management
 - style-specific active management
- fixed income
 - core index
 - core enhanced index
 - core active management
 - core opportunistic active management
- real estate
- securities lending cash collateral reinvestment -- specific guidelines for this asset class are covered in an Addendum to this Policy.

Specific Guidelines for Domestic Equity Portfolios

- **Core Index Management**
 - Description: Investment in a portfolio of stocks that substantially matches the return and standard deviation of the benchmark.
 - Investment Constraints: Equity securities, consisting of common stock and American Depositary Receipts (ADRs) listed on U.S. exchanges, that substantially matches the composition and characteristics of the market index benchmark. Futures contracts in the benchmark index may be used for the sole purpose of investing cash flows and may not be used to leverage the Portfolio.
 - Benchmark: See Appendix A

- Tracking Error: The tracking error of the portfolio is expected to be less than 50 basis points annually. Tracking error is defined as the standard deviation of portfolio excess return related to the benchmark.

- **Core Enhanced Index Management**
 - Description: Investment in a portfolio of equity securities, consisting of common stock and American Depositary Receipts (ADRs) listed on U.S. exchanges, that substantially matches the composition and characteristics of the market index benchmark. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary *modestly* from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
 - Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
 - Benchmark: See Appendix A.
 - Tracking Error: The tracking error of the portfolio is expected to be less than 300 basis points annually. Tracking error is defined as the standard deviation of portfolio excess returns relative to the benchmark.
- **Core Active Management**
 - Description: Investment in a portfolio of equity securities, consisting of common stock and American Depositary Receipts (ADRs) listed on U.S. exchanges, that substantially matches the composition and characteristics of the market index benchmark. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
 - Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
 - Benchmark: See Appendix A.
 - Tracking Error: There are no specific guidelines regarding tracking error. However, it is expected that tracking error will be greater than that of "Core Enhanced Index Management" portfolios.

- **Capitalization and Style-Specific Active Management**
 - Description: Investment of a portfolio of equity securities, consisting of common stock and American Depositary Receipts (ADRs) listed on U.S. exchanges, that substantially matches the composition and characteristics of the index benchmark. This benchmark represents the specific market capitalization range, as well as style (e.g., growth or value), as determined by the Board. However, portfolios are expected to vary in terms of number of securities held and, from time to time, may vary from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
 - Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
 - Benchmark: See Appendix A.
 - Tracking Error: There are no specific guidelines regarding tracking error. However, it is expected that tracking error will be greater than that of "Core Enhanced Index Management" portfolios.

Specific Guidelines for International Equity Portfolio

- **Core Index Management**
 - Description: Investment in a portfolio of equity securities of companies domiciled outside the United States *and listed on foreign exchanges* that substantially matches the composition and characteristics of the market index benchmark. Investment in ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) is permitted.
 - Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. No investments in markets defined by MSCI as "emerging" are allowed unless approved in advance and in writing by the Board.
 - Benchmark: See Appendix A.
 - Tracking Error: The tracking error of the portfolio is expected to be less than 50 basis points annually. Tracking error is defined as the standard deviation of portfolio excess returns relative to the benchmark.

- Currency Hedging: Currency hedging is prohibited unless approved in advance and in writing by the Board.
- **Core Enhanced Index Management**
 - Description: Investment in a portfolio of equity securities of companies domiciled outside the United States *and listed on foreign exchanges* that substantially matches the composition and characteristics of the market index benchmark. Investment in ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) is permitted. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary *modestly* from the index as measured by the statistical characteristics (e.g., country allocation, average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
 - Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. No investments in markets defined by MSCI as "emerging" are allowed unless approved in advance and in writing by the Board.
 - Benchmark: See Appendix A.
 - Tracking Error: The tracking error of the portfolio is expected to be less than 300 basis points annually. Tracking error is defined as the standard deviation of portfolio excess returns relative to the benchmark.
 - Currency Hedging: Currency hedging is prohibited unless approved in advance and in writing by the Board.
- **Core Active Management**
 - Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and primarily listed or traded on foreign exchanges and over-the-counter markets of the countries within the market index benchmark or countries announced to be added to the benchmark index within 180 days of purchase. In no event may the portfolio hold issuers which are only listed or traded on a United States Exchange. Convertible securities, rights, and warrants may not be purchased outright on the market, but may be held, sold, or exercised as investment considerations dictate if received as part of a corporate action. Investment in U.S. dollar denominated foreign securities, ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) are permitted. However, portfolios are expected to vary in terms of

number of securities held and from time to time vary from the index as measured by the statistical characteristics (e.g., country allocation, average capitalization, industry or sector weighting, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.

- Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. For the purpose of the above limitation, partially paid shares and when-issued securities will not be considered leverage and will be permitted. Assets held in emerging markets (as defined by MSCI) may not exceed 20% of the portfolio, measured at the time of purchase, unless approved in advance and in writing by the Board. 144A securities may be purchased provided that the issuer of such securities also has other securities listed on a non-U.S. exchange and traded abroad. No other private placements will be permitted.
- Benchmark: See Appendix A.
- Tracking Error: There are no specific guidelines regarding tracking error. However, it is expected that tracking error may be greater than 30 basis points.
- Currency Hedging: Currency hedging is permitted at the Contractor's discretion. Cross hedging of currency is not permitted.

- **Style-Specific Active Management**

- Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and *primarily listed on foreign exchanges* that substantially matches the composition and characteristics of the market index benchmark. Investment in ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) is permitted. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary *substantially* from the index as measured by the statistical characteristics (e.g., country allocation, average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. Assets held in emerging markets (as defined by MSCI) may

not exceed 20% of the portfolio, as measured by market value, unless approved in advance and in writing by the Board.

- Benchmark: See Appendix A.
- Tracking Error: There are no specific guidelines regarding tracking error. However, it is expected that tracking error will be greater than that of "Core Enhanced Index Management" portfolios.
- Currency Hedging: Currency hedging is at the investment manager's discretion.

Specific Guidelines for Fixed Income Portfolios

- **Core - Index**

- Description: Investment in a portfolio of fixed income securities that substantially matches the quality, coupon, maturity structure and duration characteristics of the benchmark index.
- Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, and US corporations which exhibit characteristics consistent with the quality of the benchmark index, unless specifically approved by the Board. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities.
- Benchmark: See Appendix A.

- **Core – Enhanced Index**

- Description: Investment in a portfolio of fixed income securities that exhibits characteristics substantially similar to the benchmark index. Portfolios may vary in terms of number of securities held and, from time to time, vary moderately from the index as measured by the statistical characteristics (e.g., sector concentration, maturity, duration, and yield) of the portfolio. The portfolio must maintain an average credit quality rating of at least A (Moody's) or the equivalent. Securities must be rated at least Baa3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the Board. In the case of a split rating, the higher rating will be used. It is expected that the strategy employed will produce returns net-of-fees which exceed the benchmark index, and will not incur significantly greater risk.

- Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, US corporations, and Yankees which exhibit characteristics consistent with the quality of the benchmark index, unless specifically approved by the Board. Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities.
- Benchmark: See Appendix A.

- **Core – Active Management**

- Description: Investment in a portfolio of fixed income securities that exhibits characteristics similar to the benchmark index. Subject to the following limitations, portfolios may vary in terms of number of securities held and, from time to time, may vary from the index as measured by the statistical characteristics (e.g., sector concentration, maturity, duration, quality, yield) of the portfolio.

The portfolio must maintain an average credit quality rating of at least A (Moody's) or the equivalent. Securities must be rated at least Baa3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the Board. In the case of a split rating, the higher rating will be used.

The duration of the portfolio may not vary more than 20% above or below the duration of the benchmark index.

The total risk of the portfolio as measured by the standard deviation of a series of quarterly returns is expected not to exceed 125% of that of the benchmark index.

- Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, and US dollar denominated corporations unless specifically approved by the Board.
- In no event shall any individual security, or combination of securities, create leverage in the portfolio.
- Benchmark: See Appendix A.

- Currency Hedging: Currency hedging is prohibited unless approved in advance and in writing by the Board.
- **Core – Opportunistic Active Management**
 - Description: Investment in a portfolio of fixed income securities that exhibits characteristics similar to the benchmark index. Subject to the following limitations, portfolios are expected to vary in terms of number of securities held and are expected to vary from the index in terms of statistical characteristics (e.g., sector concentration, maturity, duration, quality, yield) of the portfolio.

The portfolio must maintain an average credit quality rating of at least A (Moody's) or the equivalent. No more than 10% of the portfolio may be rated lower than Baa3 (Moody's) or the equivalent. Securities must be rated at least B3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the Board. In the case of a split rating, the higher rating will be used.

No more than 20% of the portfolio may be invested in non-US dollar denominated government or non-US dollar denominated corporation securities. The portfolio may not be invested in emerging markets' securities.

The duration of the portfolio may not vary more than 20% above or below the duration of the benchmark index.

The total risk of the portfolio as measured by the standard deviation of a series of quarterly returns is expected not to exceed 150% of that of the benchmark index.
 - Investment Constraints: No securities may be held other than those which are publicly traded debt securities of the US government, its agencies and municipalities, foreign governments, and US and non-US corporations unless specifically approved by the Board.

In no event shall any individual security, or combination of securities, create leverage in the portfolio.
 - Benchmark: See Appendix A.
 - Currency Hedging: Currency hedging is at the investment manager's discretion.

SECTION 9. GUIDELINES FOR THE CUSTODIAN

The Board recognizes that accurate and timely completion of custodial functions is necessary for effective investment management and accurate records. Every Custodian is a fiduciary as to the assets placed with them by the Fund.

The Board identifies the following as responsibilities of the Custodian(s) for the segments of the Funds for which each Custodian is responsible:

- A. Provide complete custody and depository services for the designated accounts.
- B. Provide for prompt investment of any cash to avoid uninvested amounts.
- C. Implement in a timely and effective manner the investment actions as directed by the Investment Managers(s).
- D. Collect and receive all income and principal realizable and properly report transactions in periodic statements.
- E. Provide monthly and annual accounting statements as well as on-line access accounting for the Fund, including all transactions; these should be based on accurate security values both for cost and market value. These reports should be provided within a time frame acceptable to the Board.
- F. Report to the staff situations where security pricing is either not possible or subject to considerable uncertainty.
- G. Distribute to the Investment Manager(s) in a timely manner all proxy voting materials.
- H. Provide assistance to the Board and Staff, to complete such activities as the annual audit, transaction verification and other issues.
- I. As requested by Board, provide performance measurement and portfolio analytics for the Fund, consistent with AIMR standards.
- J. When directed by the Board, and pursuant to a separate, written agreement for securities lending service, implement, in a fair and equitable manner, a securities lending program for the Fund, and report fully on all aspects of its operation and returns.

- K. Monitoring. The Custodian shall cooperate fully and with all reasonable requests for documents and records made by the Board or a Consultant designated by the Board. The Board (on its own or through its Consultant) shall periodically review its Custodians, including but not limited to, services provided, services available, charges and fees, and reports.

SECTION 10.

SECURITIES LENDING POLICY

Background

IC 5-10.2-2-13(d) provides that the Board may authorize a Custodian to enter into a securities lending program agreement under which securities held by the Custodian on behalf of the Fund may be loaned. The purpose of such a program is to provide additional revenue for the Fund. IC 5-10.2-2-13(d) provides that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower, and must be maintained at no less than the total market value of the loaned securities.

General Statement With Respect to Board's Intent

The Board intends to maintain a securities lending program, as the Board believes it provides a means of enhancing the overall Fund performance. The investment objective for the securities lending program is to generate incremental income within a high quality investment program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification of the cash collateral portfolio and tightly controls exposure to fluctuating interest rates. The Board will evaluate the income attributable to the program and the risks inherent in the program. The Board expects each Custodian who has been authorized to enter into an agreement to evaluate at least annually the agent selected by the Custodian and the Board, to offer suggestions with respect to any possible improvements in the program, and to monitor the results of the program (e.g., income, costs associated with the program, issues that arise with respect to the program) and report to the Board as directed.

Method of Implementation

The securities lending program may be implemented through a Custodian or through a sub-agent of a Custodian. Subject to the approval of the Board, any current Custodian for the Fund may implement a securities lending program for the assets placed at that particular institution. Any Custodian may utilize a sub-agent at its discretion to conduct its securities lending program in lieu of maintaining an in-house capability. The use of any sub-agent must be approved in advance and in writing by the Board, and such approval may be revoked for any reason by the Board upon five (5) days written notice to the Custodian. It shall be the responsibility of the Custodian to ensure that their sub-agent adheres to all aspects of these Guidelines as well as any additional contracts which exist in addition to these Guidelines.

The specifics pertaining to any securities lending program shall be detailed in a separate Securities Lending Agreement.

Risk Controls

The Custodian and/or securities lending sub-agent will provide agreed upon indemnification to the Fund (the Lender) from and against any losses, damages, costs and expenses which arise from a borrower defaulting on a loan or filing for bankruptcy. Upon notification of default by the borrower, which shall be reported immediately to the Board in writing, the Custodian shall take such actions as are prudent, necessary and appropriate to use the collateral to acquire replacement securities of the exact same type and kind as the securities which were loaned to the borrower. Any inability to acquire such securities shall be reported to the Fund and to the Investment Manager immediately.

The Custodian and/or securities lending sub-agent is responsible for conducting all appropriate and necessary due diligence on the borrowers and potential borrowers. The name of borrowers and potential borrowers shall be updated and provided to the Board promptly following the end of each calendar quarter.

The Custodian and/or securities lending sub-agent is responsible for ensuring that all loans are at least 100% collateralized. Specific requirements for the amount of collateral required for loans on each type of security, as well as the quality and guidelines for investment of such collateral shall be defined in the Securities Lending Agreement.

Securities shall not be loaned in excess of forty percent (40%) of the market value of Fund's assets (not be taken on an individual manager account-by-account basis) under the care of the Custodian, marked to market on a day-to-day but not on an intra day basis.

Cash collateral shall be invested by the Custodian, and/or its security lending sub-agent pursuant to the Addendum for Securities Lending Cash Collateral Reinvestment. All investments shall be subject to the prudent investor rule, IC 5-10.3-5-3.

The Fund shall direct the Investment Manager of the securities to notify the Custodian of any sales by no later than the trade date to permit the Custodian to effect timely return of loaned securities prior to or on the settlement date.

Monitoring

The Custodian and/or securities lending sub-agent is responsible for reporting fully on all aspects of the Securities Lending Program, including its operation and returns. The Custodian and/or securities lending sub-agent shall cooperate fully with all reasonable requests for documents and records made by the Board and/or an independent certified public accountant selected and retained by the Board to audit securities lending activities.

The Fund shall receive a monthly report of the securities on loan, the income received from loans, the Custodian's and sub-agent fees from loans, the composition of collateral, and the investment characteristics of the collateral. In addition to the monthly report, significant events which require additional reporting shall include but not be limited to borrower list changes, failed trades due to securities on loan, and collateral shortfalls.

The Board (on its own or through its Consultant) shall conduct an annual review of the Securities Lending Program. At this time, the Board will also survey its Investment Managers to ensure they have not encountered any problems with the Program.

SECTION 11.

TRADING AND BROKERAGE POLICY

Introduction

The Board intends to fulfill its responsibility for the evaluation and management of transaction costs for the exclusive benefit of members and beneficiaries. To assist in accomplishing these duties, this security transactions policy has been approved by the Board.

Basic Principles

The Board requires that these principles guide all transactions for the Fund:

Best execution and lowest cost, (including commission costs and market impact) and providing benefits exclusively for members and beneficiaries of the Fund must apply to trades.

Efforts to reduce trading costs, in terms of both commissions and market impact, provided the investment returns of the Fund are not jeopardized, will be ongoing.

The Board will retain the ability to enter into brokerage commission recapture agreement(s).

The Board will evaluate transaction activity annually, through a Trading Cost Analysis.

The Board intends there to be a prohibition on any self dealing on the part of any brokerage firm, including any with such a firm's broker affiliate, without specific prior authorization.

Basic Criteria for Selection of Brokerage Firm

The primary responsibility of the Board is to act as a fiduciary to the members and beneficiaries of the Fund. It is the intent of the Board that all transactions of publicly traded securities be effected through brokerage firms, regardless of location, in order to obtain the best execution and lowest cost of the transaction.

Subject to any direction from the Board, each Investment Manager will be responsible for the selection of brokerage firms, or automated trading systems through which trading will be completed for the Fund. Each Investment Manager is also responsible for conducting all appropriate and necessary due diligence on the brokerage firms it selects. Their selection must in all cases be for the exclusive benefit of the Fund's members and beneficiaries and should strive for best execution with lowest cost on trades.

Provided that the total return of a Investment Manager's Portfolio is not adversely affected or that the investment process is not affected so as to place the Fund in a disadvantageous position relative to the Investment Manager's other accounts, and provided that best execution and lowest cost are obtained, each Investment Manager may be requested to direct a percentage of its trading to specified firms for the purpose of brokerage commission recapture

programs. In such a case, the Board will select the brokerage firms, with the assistance of the Investment Managers, and establish the expected level of trading to be directed.

Review/Evaluation

At least annually, the Board will review all transactions and arrangements, if any, for compliance with these policies through an annual Trading Cost Analysis. The Investment Managers and Custodian[s] providing services shall provide any information necessary or helpful to this review.

Disclosure

In addition, each Investment Manager shall report at least annually on brokerage firms they are using and the terms of that relationship. This disclosure must cover all components of that relationship, including but not limited to, payment for order flow, soft dollars, covered expenses, and the nature of the broker selection process.

SECTION 12. **PROXY VOTING POLICY**

Introduction

The Fund is a large public pension fund and will become a significant equity investor in the stocks of corporate America. The Board recognizes its responsibilities as a fiduciary of the Fund. The Board believes that a proxy policy is an important element of its overall asset management. As an initial position, the Board believes a delegation of authority to other fiduciaries of the Fund, the Investment Managers, will be the most suitable approach.

Each Investment Manager who is retained by the Fund to buy, sell or manage common stocks which are Fund assets will have the responsibility of voting the common stock. To the extent that a third-party is used to assist in some aspect of the Investment Manager's proxy voting, the Investment Manager must inform the Fund of the third-party used and their exact responsibility. In completing this responsibility, each Investment Manager is expected to take these proxy voting guidelines into consideration.

Guidelines

The Investment Manager is to exercise its proxy voting authority for the exclusive benefit of Fund members and beneficiaries, realizing all Fund assets are governed by the exclusive benefit rule of the Internal Revenue Code applicable to qualified plans.

In voting the proxies of common stocks, the Investment Manager must act with the care, skill, prudence, and diligence of a prudent expert who is similarly situated and knowledgeable in the matters under consideration, as required under IC 5-10.3-5-3. The Board intends that this embody the most rigorous application of this standard, that the Investment Manager act with an eye solely to the best interests of the plan participants. Leigh v. Engle, 727 F2d 113, at 125.

These two requirements mandate that the Investment Manager conduct an individual review and analysis of each proxy issue prior to voting. In all cases, the long-term economic best interests of members and beneficiaries should guide the voting decisions.

Reporting Requirements

The Board intends to monitor the voting decisions of Investment Managers. To allow this to occur, each Investment Manager who votes shares of common stock will document such votes and report to the Board no less frequently than annually.

The report shall include at a minimum the following:

- A description of the process the Investment Manager uses to ensure that reasonable steps have been taken to allow for the timely voting of all proxies on all stocks which are held as of the record date.
- The action taken on routine proxies.
- The action, and rationale for the action, taken on non-routine proxies.
- A description of actions in terms of any effects on members and beneficiaries of the Fund, the Indiana economy and any special Indiana issues.

Revocation of Voting Authority

The Board may revoke the authority of a Investment Manager to vote the shares of common stock held by presenting a written revocation of voting authority to the Investment Manager.

SECTION 13. PROCEDURES FOR EVALUATION OF INVESTMENT MANAGERS

General Statement

Periodic reports should supply critical information on a continuing basis, such as the comparative investment performance, portfolio positions relative to stated strategy, and other perspectives of the Portfolios as requested by the Board. The reports should be examined to determine whether investment policy guidelines are being followed, and the Fund as well as the individual Investment Managers are meeting the established objectives.

Performance Measurement

A time-weighted return formula (which minimizes the effect of contributions and withdrawals) should be utilized. The services of an outside, independent consulting firm providing performance measurement and evaluation may be retained. Investment Managers will be expected to comply with the Association for Investment Management and Research's (AIMR) Performance Presentation Standards in calculating and reporting their investment performance. The Fund, and any firms retained by the Fund to calculate investment performance, will also adhere to the AIMR Standards.

Meetings

The Investment Manager(s) are expected to meet at least annually with the Board or its representatives to review the Portfolio and investment results in the context of this Policy. The Custodian is expected to meet at least annually with the Board or its representatives to review its responsibilities.

Compliance Report

Annually, the Board will confirm that the Fund and each of its managed Portfolios have complied with the stated investment policies and guidelines herein, including, but not limited to, the proxy voting policy and the policy for trading.

Reporting Procedures for Investment Managers

The Investment Manager shall:

- Prepare a quarterly report to be delivered to the Board and staff which includes those items requested by the Fund, in the format requested by the Fund. These reports should cover any changes in the firm's structure, professional team or product offerings; a review of recent and anticipated investment activities; an analysis of the major changes which have occurred in the investment markets and in the Portfolio in particular since the last report; a summary of the key characteristics of the Portfolio; and other matters as requested by the Fund from time to time. Periodically,

the Staff will provide the Investment Manager with a detailed description and format for these reports.

- Make a presentation to the Board, or its designated committee, at least annually and when requested by the Board, describing the professionals, the investment process employed for the Fund's Portfolio under the Investment Manager's responsibility, recent performance of the Portfolio, current investment strategy and outlook, and any other related issues as requested by the Board or its designated committee.
- Meet regularly with the Staff to discuss the management of the Portfolio, new developments and any other related matters.
- Immediately report all instances of economically material events which would affect investment performance of assets held (e.g., default, missed interest payments, violation of bond covenants, or significant business restructuring) to the Board and provide recommendations regarding options for addressing such issues, including withdrawing from the investment or other appropriate actions.
- Advise the Board immediately and in writing if any of the following events occur within the Investment Manager organizations:
 - a loss of one or more key people
 - a significant change in investment philosophy
 - a new portfolio manager(s) or account manager(s) on the Fund's account
 - a change in ownership or control (whether through acquisition, disposition, merger, consolidation, or otherwise) or in business focus of the Investment Manager
 - loss of a significant client relationship(s)
 - any investigation or action by a federal or state regulatory body
 - any other event which could be judged to or deemed to adversely impact to a significant degree the management, professionalism, integrity or financial position of the Investment Manager

Evaluation Procedures

The Board intends to review at least quarterly the performance of the Fund and of each Investment Manager Portfolio relative to the objectives and guidelines described herein.

The investment performance review may include comparisons to:

- unmanaged market indices
- other public pension funds
- a broad universe of investment managers
- the Consumer Price Index
- any other indices or measures the Board deems appropriate from time to time

Further, the Board shall at least annually consider:

- staffing of personnel
- stability of business
- changes in product offerings
- organizational structure
- conformance to this policy
- changes in investment strategy and developments in capital markets as they impact strategy
- changes in resources
- communications to the Fund

The Board reserves the right to suspend or terminate any manager at any time. Such right may be delegated to the Investment Committee.

SECTION 14. **STANDARDS FOR THE SELECTION OF INVESTMENT MANAGERS, CONSULTANTS AND CUSTODIANS**

The Board realizes that from time to time it will need expert assistance in fulfilling its fiduciary duties. The Board expects to retain Custodians, Investment Managers and Consultants to provide such assistance. Each such entity selected will serve as a fiduciary to the Fund.

Basis for Selection

For any type of expertise or assistance which is to be retained by the Board, selection shall only be made based upon the demonstrated ability of the professional(s) to provide the expertise or assistance needed.

Process for the Selection of Professional Assistance

The process shall conform to the legal requirements for professional service procurement under the State statutes. When deemed necessary by Staff and with the approval of the Board, Consultants or other professionals not involved in the specific selection shall assist in the development of requirements, evaluation standards and analysis of responses for the selection process. It is the intent of the Board that the selection process be open to all qualified organizations wishing to participate.

SECTION 15. POLICY WITH RESPECT TO ALTERNATIVE INVESTMENTS

The Board of Trustees of the State of Indiana Public Employees' Retirement Fund (PERF or the Fund) hereby adopts the following Alternative Investment Policy Statement. Effective November 8, 2002, all alternative investments shall be made in accordance with this policy. The Board recognizes that these investments will be an initial user of capital and investment results will be difficult to assess during the first 3-5 years of the program.

The Board of Trustees has approved a target allocation to Alternatives of 5% to be achieved over six years. The Board believes the Fund's equity returns can be enhanced, on a risk-adjusted basis, by investing a portion of its assets in alternatives. The strategic objective is to generate returns:

- 1) Superior to those available in the public equity market to compensate the Fund for the long term and illiquid commitments associated with alternative investments;
- 2) Above the median of comparative universe returns; and,
- 3) Approximately 500 basis points over public market equity investments, as measured by the Russell 3000 Index, net of fees and expenses.

General Statements With Respect to Board's Intent

The objective of the alternative investment program is to provide enhanced returns for the Fund, at an acceptable level of risk. All alternative investments shall be made consistent with Section 8 of PERF's Statement of Investment Policy (Policy). The role of the Board is to make strategic decisions with respect to this asset class and will review this policy statement annually. Alternative investment vehicles may include, but are not limited to, venture capital, corporate buyouts, real estate, private placements and absolute return strategies. The Board may consider investing in these assets if and only if the vehicles meet all standards pursuant to Sections 6, 7 & 8 of the Policy.

- The strategic allocations for alternative investments, as approved by the Board, are as follows:

Sub-categories	Target Allocations	Max/Min. Ranges
<i>Private Equity</i>		
Venture capital	17.5%	10% to 30%
Buyouts	42.5%	30% to 60%
Debt-related	10.0%	5% to 15%
International	10.0%	5% to 15%
<i>Absolute Return Strategies</i>	5.0%	0% to 10%
<i>Real Estate</i>		
REITs	5.0%	0% to 10%
Opportunistic real estate	10.0%	0% to 15%

Portfolio construction will be designed to produce a return mix including both current income and capital appreciation. Targeted Fund commitments will be completed within five to seven years

- No more than ten percent of the Fund's total allocation to alternative investments may be committed to any one partnership, without the approval of the Board.

While specific investments may incur losses of all or part of the capital invested, it is expected that a diversified portfolio of alternative investments will produce a positive return significantly in excess of publicly traded domestic equities. Diversifiable risks associated with this portfolio include position in the capital structure, the timing and amounts of cash flows, the size of the individual investments, and their sensitivities to business cycles. The risks associated with alternative investments will be viewed within the context of the entire Fund. The Board may overweight sub-asset classes within alternative investments to improve the Fund's risk/return posture when these investments are more attractive than other available opportunities.

The Fund may take advantage of opportunities in the secondary market to gain exposure to funds that have already begun drawing capital commitments and collecting management fees. Secondary purchases would be made with the following objectives:

- To gain access to a Limited Partnership that was not available during its initial fundraising period;
- To gain incremental return due to a discounted Partnership interest purchase price; and,
- To manage the Alternative Investment program's cash flow profile (the 'J-curve') by avoiding part or all of the initial period of net negative cash flows and shortening the time to distributions from the Partnership (net positive cash flows).

Over the long term, it is expected that roughly equal amounts of new funding will be committed in each fiscal year, with deviations permitted to accommodate market opportunities and to facilitate initial entry into the asset class.

Specific Guidelines for Private Equity Portfolios

- **Buyout Investments**
 - Description: Buyout investments typically involve the purchase of a control position (primarily majority positions, with some minority positions) in an established company with or without leverage. Investments are typically made in years one through three and returns typically occur in years three through six.
 - Investment Constraints: No more than 35% of total net assets of an individual partnership may be invested in securities or obligations of foreign entities issued outside the U.S. or in a single industry sector of the domestic economy.
 - Benchmark: 300 – 500 basis points above the Russell 3000 Index.
- **Venture Capital Investments**

- Description: Venture capital investments are seed stage, early stage, later stage, and expansion stage investments. Investments are often made in years one through five and returns typically occur in years four through eight.
- Investment Constraints: No more than 35% of total net assets of an individual partnership may be invested in securities or obligations of foreign entities issued outside the U.S. No more than 50% of total net assets of an individual partnership may be invested in a single segment within a particular industry.
- Benchmark: 500 basis points above the Russell 3000 Index.
- **Debt Related Investments**
 - Description: Debt-related investments combine a debt instrument, which provides a current yield, with an equity participation of warrants, etc. Investments are typically made in years one through three with a high level of current income that is combined with capital appreciation supplied by the warrants or other “equity kickers”.
 - Investment Constraints: No more than 30% of total net assets may be invested in securities or obligations of foreign entities issued outside the U.S. No more than 10% of assets may be invested in equity or debt related real estate assets. No purchase of securities on margin or otherwise borrow funds for the purpose of purchasing securities.
 - Benchmark:
 - 300 basis points above the Russell 3000 Index.

Note: There are no separate guidelines for international investments. Specific guidelines for these investments are included within the sections covering buyout, venture capital, and debt related investments.

Specific Guidelines for Real Estate Portfolios

- **REITS**
 - Description: Core real estate found in high quality REITs portfolios providing inflation protection and current income.

- Investment Constraints: No more than 35% of total net assets of an individual partnership may be invested in securities or obligations of foreign entities issued outside the U.S. or in a single industry sector of the domestic economy.
- Benchmark: 100 – 200 basis points above NAREIT Equity REIT Index.
- **Opportunistic Real Estate**
 - Description: Direct investment in real estate and other investments that involve real estate, such as opportunistic real estate investments involving mortgages, “turnaround” situations, REIT joint ventures, natural resources, etc. Opportunistic or value-added funds provide less current income but greater potential for capital appreciation.
 - Investment Constraints: No more than 35% of total net assets of an individual partnership may be invested in securities or obligations of foreign entities issued outside the U.S. or in a single industry sector of the domestic economy.
 - Benchmark: 300 – 500 basis points above the Wilshire Real Estate Securities Index.

Specific Guidelines for Absolute Return Strategies

- Description: Includes relative value, event driven, long/short, market neutral, and long opportunity funds. Hedge funds may or may not take offsetting long and short positions and, therefore, may or may not be hedged. They generally have few restrictions on the types of securities in which they may invest. These strategies may be also included within the “traditional” equity or fixed income segments.
- Investment Constraints: Further due diligence required prior to Board approval.
- Benchmark: To be determined

Additional Considerations

The Board encourages investment opportunities that support economic development in Indiana, through investment in private equity funds that focus on Indiana and the Midwest, in accordance with its standards for prudent investments and its guiding principles. The Board further encourages its staff, consultant and general partners (GPs) to be proactive in the community, state and region in sourcing attractive partnering opportunities. Such opportunities must be consistent: a) with investment types found in approved sub-asset classes as noted above: and b) meet the investment management and performance

standards as set forth in Section 7 & 8 of the Fund's overall investment policy. Submissions will be channeled to appropriate partners and managers of the Fund known to have an expertise in evaluating similar opportunities. The staff, consultant, and GPs will endeavor to become a conduit between Indiana opportunities and the investment management community nationwide.

APPENDIX A

BENCHMARKS FOR INVESTMENT MANAGERS

<u>Asset Class</u>	<u>Investment Manager</u>	<u>Index Benchmark</u>	<u>Peer Group Benchmark</u>
Fixed Income :	Northern Trust QA	LB Agg. Index	Core Fixed Income
	Lincoln Capital Management	LB Agg. Index	Core Fixed Income
	Reams Asset Management	LB Agg. Index	Core Fixed Income
	Hughes Capital Management	LB Agg. Index	Core Fixed Income
	Seix Investment Advisors	LB Agg. Index	Core Fixed Income
	Taplin, Canida & Habacht	LB Agg. Index	Core Fixed Income
	BlackRock	LB Agg. Index	Core Opp. FI
	Western Asset Management	LB Agg. Index	Core Opp. FI
	Northern Trust QA	LB TIPS	TIPS
	Barclays Global Investors	S&P 500	Large Cap Equity
	Osprey Partners	Russell 1000 Value	Large Cap Equity
	Merrill Lynch	Russell 1000 Value	Large Cap Equity
Domestic Equity:	Sands Capital Management	Russell 1000 Growth	Large Cap Equity
	Turner Investment Partners	Russell 1000 Growth	Large Cap Equity
	Brandes Investment Partners	Russell Mid Value	Mid Cap Equity
	Strong Capital Management	Russell Mid Growth	Mid Cap Equity
	Brown Capital Management	Russell Mid Growth	Mid Cap Equity
	Osprey Partners	Russell 2000 Value	Small Cap Equity
	Numeric Investors	Russell 2000 Value	Small Cap Equity
	Times Square Capital Management	Russell 2000 Growth	Small Cap Equity
	Brown Capital Management	Russell 2000 Growth	Small Cap Equity
	Dimensional Fund Advisors	Russell 2000 Index	Small Cap Equity
	Fidelity Management Trust Co.	MSCI EAFE Index	International Equity
	Barclays Global Investors	MSCI EAFE Index	International Equity
International Equity:	GE Asset Management	MSCI ACWI ex-US	International Equity
	Capital Guardian Trust Co.	MSCI ACWI ex-US	International Equity
Global Equity:	Brandes Investment Partners	MSCI ACWI Free	Global Equity

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